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SUBJECT: SENEGAL'S BANKING SECTOR BROADENING BUT CONSOLIDATION IS LIKELY

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¶1. Summary: Senegal's banking and finance sector, particularly in Dakar, has long been one of the country's most positive economic attributes. French and African banks dominate, but new banks are also entering the market. The mid-term trend, however, is for greater consolidation as competition (and perhaps the global credit crisis) decreases profitability. Other factors include higher deposit requirements that will be hard for smaller banks to meet, and continued aggressive market expansion by international and regional banks. West African and Monetary Union authorities are taking positive steps to boost bank account penetration rates and to improve the ease of regional transactions. End summary.

GROWTH IN BANKING SECTOR SHOWS POSITIVE SIGNS

¶2. The Senegalese banking sector is generally considered solid and well developed compared to other West African Economic and Monetary Union (WAEMU) countries. It remains the second largest in WAEMU after that of Cote d'Ivoire, with about one-quarter of the Franc CFA Zone's total banking assets. The ratio of banking deposits to GDP is 34 percent in Senegal, versus the WAEMU average of 16 percent. The large banks, in particular, remain profitable, but competition on rates is fierce.

¶3. There are seventeen operational banks in Senegal, the majority of which are privately owned, with more to come in the next two years. Societe Generale de Banques au Senegal (SGBS), the largest commercial bank, with total deposits and borrowing equaling USD 304 million, is an affiliate of Societe Generale France. The other commercial banks are owned by private and foreign shareholders, the major exception being the "Caisse Nationale du Credit Agricole du Senegal" (CNCA) and the government-controlled Housing Bank, Banque de l'Habitat (BHS).

¶4. Currently, the sector is dominated by SGBS and Compagnie Bancaire de l'Afrique de l'Ouest (CBAO), followed by Banque International pour le Commerce et l'Industrie du Senegal (BICIS) - part of BNP Paribas group, Togo-based Ecobank, and Bank of Africa (also headquartered in Togo). They all offer a wide range of retail and commercial banking services. Other traditional commercial banks include Credit du Senegal, (part of French Credit Agricole), and Morocco's Attijariwafa Bank (Atti). Other banks cater to specific sectors, including CNCA for agriculture financing, BHS (housing), Banque Regionale de Solidarite (BRS) for the informal sector, and Banque Islamique du Senegal (BIS), which offers its customers sharia-compliant products (Septel). Three new commercial banks entered the market in 2008-2009: Togo-based Bank Atlantique, Banque Regionale des Marches, a WAEMU-sponsored microcredit bank, and Malaysian-owned International Commercial Bank. Nigeria's United Bank of Africa (UBA-Nigeria) has received authorization to begin its operations in later this month.

¶5. The other significant players for commercial financing in

Senegal include Citigroup Senegal, which focuses on servicing local affiliates of multinational companies and does not offer retail banking, and BMCE Capital, an affiliate of the Bank Marocaine du Commerce Exterieur, which is very active in project finance, especially for major government projects, such as the new international airport currently under construction. The International Finance Corporation (IFC) has also been active in local commercial project financing.

MOROCCAN BANKS ON THE MARCH

¶ 16. Moroccan banks have been particularly active in expansion via acquisition. The local subsidiary of Atti merged with Banque Senegalo-Tunisienne (BST) in July 2007. Atti holds two-thirds of the capital for the new bank, while BST hold the rest. In December 2008, Atti acquired 79.15 percent of CBAO (for USD 153 million) to become one of Senegal's largest commercial banks. The new CBAO-Atti venture maintained CBAO's logo, though the BST brand has been absorbed into Atti. Also in 2007, BMCE acquired a 35 percent stake in Bank of Africa's operations in Senegal.

¶ 17. Atti is also making a push to become one of the biggest pan-african banks. As of January 2008, Atti holds a 51 percent stake in the International Bank of Mali and a 51 percent stake in Cote d'Ivoire's Societe Ivoirienne de Banque. It acquired Credit du Congo (81 percent), Societe de Banque Cameroun (65 pct of capital), and Union Bank of Gabon (59 pct of capital). Atti is also taking an equity stake in Burkina Faso's Cauris Bank International and is reportedly pursuing the International Bank for Africa in Niger. Similarly, the President of Ecobank has stated an interest in acquiring the WAEMU holdings of France's Credit Lyonnais.

¶ 18. In a recent press interview, SGBS' General Manager Sandi Gallo minimized the CBAO-ATTI deal and retorted, "We are not afraid of the new ATT/CBAO. We control 29 percent of the market, 26.5 percent of

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the banking workforce, provide USD 22 million in new medium-term loan to our commercial clients, and purchased USD 48 million of Senegal's treasury bonds in 2007." Gallo welcomed the ATT/CBAO as an opportunity to strengthen banking competition.

CONSOLIDATION IS LIKELY

¶ 19. In spite of the entry of new banks into Senegal, the mid-term trend is likely towards merges and consolidation for a number of reasons. One important factor is that the WAEMU Central Bank (BCEAO) is imposing higher cash reserve requirements on commercial banks, with minimum deposits increasing from CFA 1 billion to CFA 5 billion (USD 2-10 million) by the end of 2009. This reserve requirement is scheduled to increase to CFA 10 billion by December 31, 2010. There is much speculation that the smaller banks do not have the capital available to meet these new requirements. The banking sector in Senegal is also much more competitive than most of the WAEMU region and banks are forced to charge lower rates of interest than elsewhere. Two local bank directors speculated that this is due to Societe General and other French banking interests' efforts to push down rates and profitability to force weaker banks out of the market. Finally, though Senegal's banking sector was not directly impacted by the "toxic assets" that have weighed down balance sheets in the U.S. and Europe, the global credit crunch could still put some local banks in jeopardy. In the shake-out, the strong banks, including Socite General, Atti, and Ecobank, are likely to gain market share at the expense of the small banks.

¶ 10. According to a BCEAO report published in December 2008, the proliferation of banks has not contributed to improvements in development financing in the WAEMU region. For instance, total loans granted to support development projects within WAEMU represent only 16 percent of GDP compared to 80 percent in South Africa, according to the report. BCEAO authorities stated that further bank proliferation "could weaken the sub-regional banking system."

¶ 11. A recent measure put in place to improve the WAEMU banking integration is the "groupement interbancaire monetique" (GIM) an integrated banking card for all of the 97 banks and financial

institutions in the Franc CFA Zone. In addition, an electronic clearing system which links all the banks in the WAEMU has been introduced recently, allowing the immediate settlement and transfer of checks. These new systems, however, require investment and staff from the financial institutions, which again, might be too steep expensive for some of the smaller operations.

¶112. While Senegal, especially Dakar, remains an attractive market for banks, the pressure on interest rates is reportedly decreasing local profitability and is motivating some banks to become more active in other WAEMU countries, including Cote d'Ivoire and Mali. At the same time, one attraction for local banks is that the customer base is set to grow. While it is estimated that only five to six percent of Senegal's 12-plus million residents currently holds a bank account, WAEMU's authorities have introduced legislation that lowers the required monthly income threshold for opening a standard bank account as an incentive to increase banking penetration rates.

COMMENT

¶113. While local bankers complain about the increasingly cut-throat competition in Senegal's banking sector, the relatively lower interest rates could help the country maintain adequate levels of new investment during the global recession. At the same time, there is a tremendous need for the competition to also be reflected in improved service and new financing and investment instruments. The WAEMU's efforts to ease regional banking is very welcome and should decrease the amount of (legal) currency being carried across borders in the Franc CFA zone by traders, business people, and Embassy TDYers.

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